

Thank you for inviting me to share with you my plans for the Kentucky Public Service Commission and my thoughts on Kentucky's electric utility industry.

I came to the Public Service Commission in February of this year as someone with virtually no experience with your industry, and only a general understanding of its importance to our Commonwealth. I came to the PSC from a small-town law practice. When I arrived, it was just a few weeks into a new administration, the legislature was in session, and there were several major pieces of litigation pending in the Federal Courts and at the Federal Energy Regulatory Commission involving the PSC. It was a real baptism by fire.

Indeed, I learned early on that the PSC regulates more than 1,500 companies – including 21 Rural Electric Cooperatives and five investor-owned electric utilities – and that what I do there affects each and every citizen of Kentucky, with the exception of a few survivalists who continue to cook by rubbing two sticks together and wash their clothes on rocks at the creek bank.

My first few months on the job, and those of Vice Chairman Ellen Williams, have been made much easier because of the extremely capable and very dedicated PSC staff. The amount of institutional knowledge within that staff is truly remarkable. I have enjoyed getting to know them and have come to rely on them.

It is certainly my intention to maintain and enhance the level of professionalism and integrity that you have come to expect of the PSC and its staff. In that task I will be assisted by our new Executive Director, Beth O'Donnell, who joined us this month. With a wealth of experience in utility regulation – on both the government and industry sides – Beth is an excellent choice to continue the fine work done by Tom Dorman and Bill Bowker.

In the coming months, as Beth, Ellen and I gain a fuller understanding of how the PSC operates, I am sure you will see some changes. Rest assured that it will not be change simply for the sake of change. I certainly subscribe to the common adage that “if it ain't broke, don't fix it.” Our goal – as it is throughout Governor Fletcher's administration – is to make your state government work harder, smarter and more efficiently. Where we can implement changes that will make the PSC do a better job for regulated utilities and their customers, we intend to do so. If you have ideas for improvement, I encourage you to share them with us.

I also can assure you that the PSC will continue to do its work in an open, fair and non-partisan manner. Our effectiveness rests in large measure in the confidence placed in us by the Governor who appoints us, the legislators who enact the laws we implement, the utilities we regulate and, most importantly, the citizens of this Commonwealth. We must continue to earn that confidence every day through the work we do and the decisions we make. I expect that of the PSC staff, and of myself.

Now let me turn to your industry.

As someone who grew up in Harlan County, I have a first-hand appreciation of the vital role that rural electric cooperatives played in the modernization and economic development of our smaller communities. Let me say also that, being from a rural, geographically challenging area, I have a keen appreciation for what your particular companies have to do to serve us. It is not an easy task, but a task which, through your hard work and dedication to your jobs, you make appear easy.

However, rural electric cooperatives do far more than deliver power. You are woven into the fabric of the communities you serve, helping strengthen it in countless other ways – through civic leadership, by giving scholarships to deserving students, in your support of environmental education, through charitable donations, and in many other ways.

I firmly believe that one of the most important things the PSC can do is to insure that Kentucky's rural electric cooperatives remain financially healthy and operationally strong. I look forward to hearing your thoughts on how we can assist you in that endeavour.

Kentucky is extremely fortunate with respect to our electric utilities. It's not just that we enjoy some of the lowest residential, commercial and industrial electric rates in our country, and reap the economic development benefits that go along with them.

Equally important is the reliability of our electric generation and transmission infrastructure. Kentucky's regulated utilities, with the encouragement and support of the PSC, have invested wisely and created a system that has proven itself to be robust and dependable. While Kentuckians have not had to worry about widespread outages caused by systemic weaknesses, that does not mean we have grown complacent. In the wake of the blackout that occurred last August 14, the PSC and Kentucky's utilities joined to study the strength of our transmission system. We anticipate that study to be completed this summer, and I am hopeful that it will confirm that our transmission system is deserving of our continued confidence.

I also have learned that Kentucky is in an enviable position with respect to electric generation facilities. For the most part, we have ample capacity, and utility companies, including the generation and transmission cooperatives, have made the investments necessary to maintain comfortable reserve margins.

That is not to say that we don't have issues to contend with. Allow me to share my thoughts on several.

Perhaps the most important is the question of the regionalization of electric transmission facilities and electricity markets. As you well know, it has not always been easy to reconcile Kentucky's positions on these issues with those of some other states or with the Federal Energy Regulatory Commission. Finding the right role for Kentucky in

integrated regional transmission systems will continue to be a major focus of our work at the PSC.

Another challenge for your industry is the continued imperative to maintain and improve environmental performance. Certainly, Kentucky's electric utilities have provided ample proof that it is possible to invest in emission controls and improve air and water quality while maintaining the low rates that are vital to our state's economic health. That success is due to state laws and regulations that permit cost recovery for environmental projects. It is also the result of progressive thinking by utility leaders who recognize that the investments they make are not just for the benefit of their companies, but also for the benefit of future generations. The PSC will continue to support your efforts in this area.

There are other issues that concern us – securing vital infrastructure in an age of terrorism, transitioning some distribution cooperatives to new sources of wholesale electric supply as contracts with existing suppliers expire, and developing improved demand-side management programs – an area in which cooperatives have been in the forefront.

I also want to take this opportunity to applaud the KAEC and your respective companies on two matters of particular importance:

First, I have seen some recent statistics which indicate that working as an “electric power installer” is the seventh –most dangerous job in the United States. I understand that the KAEC and its members have put into place several new initiatives to educate and train their employees in an attempt to reduce the number of injuries and fatalities incurred in this very hazardous occupation. As you know, the PSC places a great emphasis on safety, and we will remain ready to work with you in every way possible to insure the safety of both your employees and your members.

Second, on behalf of the PSC and the citizens and ratepayers of the Commonwealth, I want to thank those of you who, with your employees, worked so diligently to restore outages which occurred during the February 2003 ice storm. Despite difficult and often dangerous working conditions, power was restored effectively, efficiently and – most importantly – safely. Your response to this unprecedented calamity was truly amazing!

In closing, I appreciate having this opportunity to meet with you and to learn more about Kentucky's rural electric cooperatives. It is especially gratifying to be able to address a room full of managers. The co-op manager is truly in the position where "the rubber meets the road" in the day-to-day operations of each of your utilities and in ensuring that your members continue to receive the impeccable quality of service that they have learned to expect.

I look forward to working with you in the coming months and years. I believe that an open dialogue between the PSC and the co-ops – indeed, with all utilities – will serve us all well in the long run because it will build understanding between all parties and help us share innovative concepts and ideas. Thank you very much.